

*Carbon Pollution Reduction Scheme*

Green Paper

Submission to the Department of Climate  
Change

September 2008



## **INTRODUCTION**

ANZ supports the intent of the Government's Green Paper; that is, to place a price on carbon and thus achieve, over time, a reduction in Australia's carbon emissions. In doing so we need to ensure we appropriately balance the potential overall environmental gains of a unique domestic Carbon Pollution Reduction Scheme (CPRS) against any potential detriment to the relative competitiveness of the Australian economy.

ANZ itself is not a significant emitter of greenhouse gases and will not be directly subject to the CPRS, but some of our most important clients will be – clients that supply our society with jobs, clients that generate our electricity and deliver the energy that powers our industries and clients that underpin the strength of our economy by dollars earned through exports. Australia currently has a competitive advantage in many of these industries, as well as an energy sector heavily reliant on emissions intensive coal fired generation. These industries, and our economy, could potentially suffer detriment if Australia implements measures well in advance of and to greater domestic effect than the economies with which we compete.

ANZ supports the Green Paper's proposal that compensation be provided for Emissions Intensive Trade Exposed industries (EITE) and for strongly affected industries, such as coal-fired electricity generation. With regard to the latter, as a key financier in this industry ANZ supports the view that direct assistance should be provided to coal-fired generators on an asset by asset basis. Similar to EITE's, this should also be in the form of free permits determined upfront and provided over a defined timeframe to allow the industry to transition without being disproportionately affected. The Government may also want to give consideration to the long-term power purchase agreements held by some of these generators, as these potentially could create an inability to pass on the cost of the additional emissions permits needed.

ANZ also supports the Government's commitment to the development and deployment of Carbon Capture and Storage (CCS) technologies, including through existing CCS support programs.

We also acknowledge that governments are best placed to examine and balance all the relevant social and economic issues, and make decisions about the most responsible manner in which to provide appropriate compensation and achieve emissions reductions. Clarity of public policy is needed for investment and financing decisions in both low-carbon technologies and higher emission technologies. Our decision making on financing of energy projects, especially on coal-fired energy generation is at present very cautious, reflecting the very high level of uncertainty.

## **SUPPORTING OUR CLIENTS**

As noted above our impact on the environment is largely indirect, through the activities of our clients. It follows that our primary response to climate change should

be to assist those clients to reduce their carbon footprint through supporting their efforts by offering appropriate financial products and services.

Climate change is a real risk that we factor into our business decisions. Many of our clients have exposure to the effects of climate change, whether they be involved in agriculture and vulnerable to the risk of water shortages, or industries heavily impacted by carbon regulation like electricity, mining, chemicals, transport and plastics manufacturing.

ANZ finances corporate clients across a range of directly impacted industries, including electricity generation – both emissions intensive and low carbon, manufacturing and waste. We also finance clients and retail customers who, while not directly exposed to the CPRS, will be subject to higher energy prices. ANZ can help these clients and customers, and in turn Australia, adjust to a lower carbon economy through:

- Financing measures to help reduce their carbon footprint
- Financing alternative energy opportunities and renewable energy projects
- Assisting clients to financially manage their obligations under the CPRS
- Assisting clients to offset those emissions they cannot avoid.

#### *Financing measures to help reduce our clients' carbon footprints*

As constraints on carbon become a reality through the CPRS, the importance of investment in energy efficiency will grow. The first way we assist clients is through financing measures to reduce their carbon footprint.

Many of ANZ's corporate clients are currently considering the implications for their businesses of the introduction of the CPRS as well as the impact of higher future energy prices. In response ANZ has begun working with these clients to reduce energy consumption across their businesses by financing more energy efficient plant, equipment and buildings. Our clients benefit from lower operating costs now and reduced liabilities into the future as carbon pricing is implemented.

We have also been working to develop an energy-efficient financial product. The product is designed to incorporate advice to clients on potential improvements they can make to their energy efficiency, design measures to achieve that efficiency and finance the implementation of those measures. An agreed level of energy savings and a linked reduction in greenhouse gas emissions would be guaranteed to the client.

#### *Financing alternative energy opportunities and renewable energy projects*

Assisting clients to reduce their carbon footprint is the focus of our response to climate change, but in addition, we are supporting the continued development of renewable

and alternative energy, both through direct investments and through innovative financing solutions.

ANZ Infrastructure Services (ANZIS), a specialist adviser and investment manager, has established two special-purpose investment trusts to encourage investment in environmentally sustainable energy sources and infrastructure. These trusts have already invested in a range of alternative energy sources including wind and biofuels, as well as conventional but more sustainable sources including gas and clean coal technologies. ANZIS will continue to look for opportunities to directly invest in alternative energy opportunities and renewable energy projects.

ANZ will continue to assist companies through arranging finance for renewable energy projects. Over the past 15 years ANZ has helped finance projects in Australia and overseas, including wind, geothermal, hydro and waste and coal seam gas power generation.

*Assisting clients to financially manage their obligations under the CPRS*

In adjusting to the CPRS ANZ can provide innovative financial products to new and existing clients to manage carbon price risk and provide the cash flow necessary to acquire permits.

ANZ is already active in existing Australian carbon and renewable markets, including the trading of national Renewable Energy Certificates and this experience provides us with a sound base to help our clients participate in secondary carbon markets. While the Green Paper suggests that the Government will allow banking and borrowing of permits, secondary markets will be important to provide the primary market with credibility and certainty and allow the trading of permits by carbon emitters prior to them entering the primary market. Forward markets will also be essential to provide investment certainty for new entrants as well as existing emitters.

It will important that the borrowing of permits be limited to small shortfall buffers of each company's liability. ANZ notes that the Green Paper is proposing that borrowing would be limited to no more than 5 per cent subject to further decisions pending the level of the scheme caps. We would support this proposal as the borrowing of higher amounts would limit the ability of the market to establish a clear price for carbon as well as hindering the development of secondary markets.

Companies subject to the CPRS may experience cash flow issues associated with the decision to purchase permits prior to receiving the revenue generated from the production associated with these permits. While the Green Paper suggests that the Government will hold frequent auctions of small parcels of permits ANZ can provide a number of products to assist these companies manage these cash flow issues.

*Assisting clients to offset their emissions through voluntary markets*

ANZ can also assist clients to offset their emissions through the voluntary markets. We are already an active participant in carbon offset markets both in Australia and internationally. ANZ understands that the Australian Government is working to establish a national carbon offset standard by end 2008. In the interim ANZ has established a set of criteria to make it easier for our clients to choose credible and effective schemes that best suit their circumstances.

**CONCLUSION**

ANZ believes that Australia can make an important contribution to building an agreement on the global reduction of carbon emissions. However, in doing so we need to ensure we appropriately balance the potential overall environmental gains of the unique CPRS against any potential detriment to the relative competitiveness of our economy.

ANZ acknowledges that governments are best placed to examine and balance all the relevant social and economic issues, and make decisions about the most responsible manner in which to achieve emissions reductions, and we will provide the innovative financial product to help Australian companies adapt to the CPRS.

ANZ would be pleased to provide any further information about this submission as required, and can be contacted as follows:

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